



Questions about about recent market activity among highly shorted names. We have answers. (ddp)

UBS Trending

# Video: Short selling and power shifts

02 February 2021, 00:01 am CET, written by UBS Editorial Team

**Retail names like GameStop, AMC and Bed Bath & Beyond that have high short interest have seen incredible activity in the market, with a lot of younger investors getting involved. We look at the excitement and the risks.**

UBS Trending host Anthony Pastore speaks with Chief Investment Office Strategist Justin Waring and Giselle Rivera, head of UBS' Rising Generation segment on the topic. [Watch the video.](#)

*Some highlights:*

## **What is short interest?**

Waring: To fully understand what short interest is, let's start with some basics. If you think a stock will go higher, you can buy the stock. In order to do so, you need to find a seller. Every share bought is a share sold.

Now if you think a stock will go lower, what can you do? If you own the stock, you can sell it, but if you don't own the stock, you can sell short. This means borrowing shares and selling those borrowed shares. If the share price goes down, you can buy the stock at the new lower price, return borrowed share to the lender, and make a profit.

If a shorted stock rises in value, you might need to deposit more funds to preserve the loan or sell other holdings to raise cash. If it rises enough, you might even have to buy back stock to cover the loan. This creates a short squeeze which in itself can drive prices higher. Sometimes during a short squeeze, there is more short interest than available shares to trade, and this continues to enhance the value of the stock, leading to more short squeezes.

## **What is driving these, often times, younger retail investors?**

Rivera: We have seen a ton of headlines and many characterize these retail investors as motivated by greed. I don't see this fueled by greed but instead something a lot more positive.

When we surveyed the Rising Generation segment, 71% of these investors under 40 wanted to make a difference. There are so many ways to make a difference, like donating time, money, or expertise. One other way is by sharing information. When you share information, your goal may be help other people make better decisions, win with you or to shift power. I want to say it again because this is an important concept – One way to make a difference is by sharing information to shift power to those who may not have had access before. Last week we saw a lot of information sharing especially among young people, not covertly, but in an open forum. This sparked a lot of excitement and many people felt proud of this. That's a misunderstood part of the story.

### **Should investors consider buying stocks that have high short interest?**

Warning: Buying a diversified portfolio of stocks with a large amount of short interest will often be more risky than buying the broader market. If you bought a portfolio of the 100 most-shorted stocks in 2020, you would have experienced a 56% drawdown in 2020, but because of the recent short squeeze you would have outperformed the broad market significantly. Buying individual stocks is far riskier than a diversified portfolio and many of these stocks have attracted short interest for a reason. If you plan to buy these stocks for the long run, make sure that you carefully consider whether these stocks hold value that the market is overlooking, or if they are heading towards failure. I would recommend against buying stocks in the hope of a short squeeze, but if you do it's important to have an exit plan.

Also, keep in mind that the company that is subject to the short squeeze may raise capital by selling shares at the new price. This could alleviate shortage on available shares. This supply-demand shift could cause the stock price to fall.

At the end of the day, a company will trade on fundamentals. To invest for the long-term look at a company's fundamentals. I would caution against putting lot of capital into one individual stock. But buying stocks that have high short interest is not always a bad idea.

### **The power of information**

Rivera: What's great about this is it's a learning moment for all of us and has opened up a dialogue. It has brought financial education into the mainstream. Many young people don't think finance is for them. But we owe it to ourselves to claim our spot. We talked about shifting power - when you understand what builds your credit, what hurts your credit, the best ways to allocate to spending, savings, paying down debt, building an emergency fund, that's power. Young people, we owe it to ourselves to ask questions and have them answered.

If you don't know where to start, feel free to explore resources on [UBS.com/rising](https://www.ubs.com/rising). This is our version of information sharing.

[Click here to watch the video.](#)

Main contributor: Wendy Mock

#### **Important information**

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](https://www.ubs.com/workingwithus).

© UBS 2021. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.